

The Energy and Technology Committee

March 3, 2008

Raised Bill No. 504: AAC NATURAL GAS CUSTOMER CHOICE

Testimony of

Yankee Gas Services Company

Raised Bill No. 504 purports to be about choice for residential gas customers. In fact, it is about Connecticut customers paying much higher prices for natural gas service and facing unprecedented risk in the reliability of their gas service, including in the winter months when they need gas to keep their homes heated.

Yankee Gas has a public service obligation to provide safe, reliable, affordable service to all of its customers. Yankee Gas lives up to this obligation by creating a gas supply portfolio that fits the needs of all of its customers at a reasonable price. In the name of customer choice, this bill would assign the gas supply assets of the gas local distribution companies ("LDCs") to unregulated gas suppliers, who have no such public service obligation. The gas supply assets held by the LDCs include interstate pipeline transportation contracts, underground storage contracts, and on-system facilities such as LNG and propane plants. Without those assets, the LDCs would be unable to provide gas supply service. Without competition from the LDCs, the unregulated suppliers

would be able to charge prices far higher than the LDCs now charge, and the Connecticut Department of Public Utility Control ("DPUC") would be powerless to stop them. Moreover, many of those same suppliers have admitted that they wish to use those assets, at least in part, to serve customers in other states. Last but not least, after comprehensive hearings, the DPUC correctly found that, if any of those suppliers were to enter bankruptcy, these key gas supply assets would be tied up in bankruptcy court for many months and therefore unavailable to serve Connecticut customers. This has the very serious potential to lead to lengthy interruptions in winter heating service to citizens who depend on gas for their heating needs. Unlike electric service, if there is a major gas outage, it takes weeks, even months, to restore service, as the burners in each home must be manually relit. In that event, some Connecticut residents could be without heat in the heart of winter, perhaps under the frigid conditions that we have experienced over the past month.

The Seductive Use of the Promise of "Customer Choice"

The phrases "customer choice" and "competition" have considerable allure. The road to retail choice in gas, however, is filled with potential pitfalls and unintended consequences. The State of Georgia adopted full retail choice in gas in 1997. In November of 2001, Georgia Governor Roy E. Barnes ordered a study evaluating that State's experience. In February 2002, Georgia's Blue

Ribbon Natural Gas Task Force issued its report to Governor Barnes. Among the Task Force's key conclusions were:

- The benefits of deregulated rates have been decidedly mixed with a small number of natural gas users, particularly large industrial customers, receiving lower prices than before deregulation, but with most users, particularly those with fixed and lower incomes, being buffeted by higher than anticipated prices, volatile prices, poor customer service (billing error, billing failure, inability to reach marketer call centers, disputed disconnections of service), and increased difficulty in responding to high winter bills, resulting in higher overdue balances, particularly for low-income customers.
- Deregulation in its early phases led to confusion on the part of consumers as to the reasons for the charges they were receiving and the changes in them. Marketers in many cases were not prepared for the challenges of the numbers of consumers they acquired and excessive numbers of billing errors occurred.
- Consumers have in large part indicated they want understandable and reliable service, fair prices, stability, and accurate and timely bills, not deregulation per se. As it was stated during the course of the Task Force proceedings, "Consumers did not ask for this and are not seeing clear benefits from it."
- Customer complaints received by the Georgia Public Service Commission ("PSC") increased from 601 in 1997 to 15,981 in 2000. Docketed cases

before the PSC increased from 400 per year prior to deregulation to 1,500 per year in 2001.

As a result of its study, the Georgia Task Force gave considerable thought to re-regulation before concluding that the path to re-regulation was too difficult.

For Connecticut, gas retail choice would present even greater challenges than in Georgia, and even greater challenges than on the electric side in Connecticut, where choice has been far less successful than originally anticipated. Connecticut is a unique gas marketplace, lying at the end of the interstate pipeline network, with no access to indigenous supply or underground storage. Supply in Connecticut is very tight and becoming even tighter. To supplement this scarce pipeline capacity, the LDCs have access to on-system resources such as LNG and propane. If the LDCs lose control of their supply portfolio, they will not be able to replace it. For that reason, unlike electric service, the LDCs will not have the capability to provide an alternative to gas service from the unregulated suppliers. Customers will then be at the mercy of these suppliers, both in respect to the prices they will pay and exposure to outages. There would be no reliable backup whatsoever.

At present, commercial and industrial customers have choice. Some choose to take service from unregulated suppliers, others from the LDCs. The LDCs are there to serve as a safe haven for customers who are dissatisfied with

the prices charged, or service provided, by the unregulated supplier. In that competitive environment, Connecticut businesses are well-protected. The unregulated suppliers are not satisfied, however, to earn a fair return under fair competition on a level playing field. They want the LDCs to give up their gas supply assets and surrender full control of the market to the unregulated suppliers, who would then be free to raise prices without fear of the customers returning to LDC service.

There is no public clamor for residential choice. In fact, there is no evidence whatsoever to indicate that Connecticut's residential gas customers actually desire this choice. Their statutory advocate, the Office of Consumer Counsel, is well aware that this Bill would be detrimental to the Connecticut consumers that it represents.

Natural gas customers already have the kind of choice they want, as natural gas competes every day for customers with unregulated oil and propane dealers. Instead, this bill would only serve the special interests of unregulated gas suppliers who wish to earn excess profits at the expense of Connecticut residents.

Why Here, Why Now?

The Connecticut DPUC has recently conducted a proceeding designed to ensure competition on a level playing field for commercial and industrial

customers. After extensive hearings, testimony and cross-examination of witnesses, the DPUC gave the gas suppliers much of what they had asked for. In the few instances in which the unregulated gas suppliers were not successful, it was because the DPUC acted responsibly to ensure the reliability of gas supply in Connecticut. The DPUC's decisions in Docket Nos. 05-05-10 and 06-04-04 represented yet two more instances in which the DPUC has advanced the cause of competition for Connecticut businesses and industrial gas customers.

Interestingly, no party, not even the unregulated gas suppliers, advocated for 100% release of supply assets in the above dockets, as contemplated by this legislation. That suggestion would so obviously have harmed reliability and disadvantaged Connecticut customers that the parties apparently recognized the futility of advocating it before the DPUC, an agency with substantial expertise with these issues. The bill also contains other provisions pertaining to balancing and credit that are designed to subsidize unregulated gas suppliers at the expense of Connecticut's gas customers.

Having failed to pull the wool over the DPUC's expert eyes, the unregulated gas suppliers have now come to this legislature with the hope that you will be more gullible than the DPUC. Yankee Gas hopes, and the public interest requires, that you prove them wrong.

In sum, the legislature should not be swayed by the alluring slogans and false promise of residential choice, a promise that was unfulfilled in Georgia and on the electric side in Connecticut. The track record of residential choice is clearly negative. Few states are now proceeding down this path, and those who have done so in the past now regret it. Even more significantly, the kind of choice that this bill offers removes the most important choice – the opportunity to elect gas supply service from a regulated LDC. Without competition from the LDC, prices will unquestionably rise. Moreover, without the LDCs backstopping reliability through retaining control of their gas supply assets that they have acquired over the years, it is only a matter of time before Connecticut residents face prolonged outages.

For these reasons, Yankee Gas urges the Committee to reject the proposed legislation. Thank you for the opportunity to speak to you today.